WHERE RICARDO SUCCEEDED AND WHERE HE FAILED

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In this year, 1910, we are just one hundred years away from the time when certain events occurred in English history with which David Ricardo was closely connected and which first brought him into notice.

They concerned the currency. The Report of the Bullion Committee was laid on the table of the House of Commons on June 8, 1810. The Committee (Francis Horner, chairman) had been appointed in February of that year, largely because of the "feeble efforts" of Ricardo and others to rouse the nation's attention to what was happening to its paper currency.[1] What had been happening may be judged from the fact that in the first three months of 1810 the price of gold bullion in that same paper currency was £4, 10s. an ounce, the mint price being then as now, £3, 17s. 10½d., the excess consequently about 15 per cent; to send gold was to buy gold at £4, 10s. an ounce or more in the currency as it then was.

Ricardo's "Letters to the Morning Chronicle" of August, September, and November, 1809, declared depreciation of bank notes to be an evident fact, and the overissue of them to be the demonstrable cause of it. The superfluous notes could not come back to the bank, for the restriction of cash payments enacted in 1797 still lasted, and the still valid laws against the melting of coin for exportation had the effect of extending the depreciation to the guineas. The whole currency was therefore depreciated, including such guineas as were visible; and, as to silver, whether in good or bad condition, a law of 1798[2] by limiting its sufficiency to £25 had thrown it out of court; it was token money.

Ricardo put his case more formally in the pamphlet on "The High Price of Bullion a Proof of the Depreciation of Bank Notes", the preface of which is dated December 1, 1809. Professor Hollander's republication of the "Letters to the Chronicle"

[1] Cf. *Letters to Malthus,* p. 17, foot. "Feeble efforts", *High Price of Bullion,* Wks. 290.

[2] Reënacting law of 1775. See Letters to the *Chronicle* (ed. Hollander), p 22.

has shown us how far the "Letters" are at one with the pamphlet. They agree, of course, in principle, but the pamphlet is more systematic. The paragraphs most nearly identical are those relating to the fancied connection of the rate of interest with the condition of the currency, and the supposed equality of silver with gold as standard money. But the clear statement of the general principle—the clue to all the difficulties of this particular economic question—is given only in the formal treatise and its Appendix refuting Malthus. Ricardo's idea is that the extent of a nation's need for currency is a definite fact about it, depending on its industrial and commercial peculiarities, as compared with those of another nation. It bears a definite proportion to that nation's trade and to the trade and currency of other nations.[3] Just as in each society of men over any considerable time there is a definite and characteristic need of a certain quantity of food and raiment and the comforts of life generally, so there is a quantum of currency needed by each society. Neither the first (the other goods) nor the second (the currency) can be judged to be the same as for other societies; in fact each nation (and a nation is the most measurable kind of society, being the likeliest to furnish us with statistics) has a different scale and amount of wants from its fellows. But over any considerable time this is a standing difference, consistent with itself; and its unlikeness toward its fellows is a standing unlikeness. It does not stand so firmly that it cannot be shaken. Ricardo's "equilibria" are always those of the sea; his sea is never quite calm though always tending to be so; market fluctuations are its waves.[4]

Ricardo conceives that every disturbance of the proportion between the currency of one nation and the currency of another will cause a flow of the precious metals from one to the other, and such disturbance is not only an occasional cause of such a flow but (in spite of Malthus) it is the *only* cause under normal conditions and even under conditions, such as those of a war, not quite normal but not inconsistent with the action of economic forces.[5] If a country in the flow and ebb of trade has proportionately too little currency, gold will be dearer there, and gold will go thither. Gold will become the means of payment most profitable to employ there, for it will be going from where it is less wanted to where it

[3] See "Appendix" in McCulloch's *Works of Ricardo,* pp. 292-3.
[4] Cf. *Letters to Malthus,* p. 16, top.
[5] Cf. *Letters to Malthus,* p. 15, middle.

is more wanted. If on the contrary, the currency of a country has swollen beyond its needs, gold will leave it for the country where it is relatively dearer. This is true of other goods; in fact it is a deduction from the general principle applied by Adam Smith and others to all commodities.

It is no peculiarity of so-called international trade, in the narrow sense, for it holds between provinces of the same country. "The money of a particular country is divided among its different provinces by the same rules as the money of the world is divided amongst the different nations of which it is composed. Each district will retain in its circulation such a proportionate share of the currency of the country as its trade, and consequently its payments, may require, compared to the trade of the whole; and no increase can take place in the circulating medium of one district without being generally diffused or calling forth a proportionable quantity in every other district. It is this which keeps a country bank note always of the same value as a Bank of England Note."[6] He goes on: "If in London, where Bank of England notes only are current, one million be added to the amount in circulation, the currency will become cheaper, or goods dearer. Goods will therefore be sent from the country to the London market to be sold at the high prices, or, which is more probable, the country banks will take advantage of the relative deficiency in the country currency, and increase the amount of their notes in the same proportion as the Bank of England had done; prices would then be generally, and not partially affected.[7] This local experience had been utilized by the Bullion Committee which had taken notice of two striking incidents illustrating the case before them and drawn from the history of the banks of Scotland (1760 seq.) and Bank of Ireland (1804).[8]

Ricardo gained his point. The Committee reported that the evil was as he described it and was to be cured by the remedy he prescribed for it. The House of Commons was no doubt persuaded to reject this verdict; but there is no question that it was the right verdict, and within ten years the legislature gave it the force of the law.

Yet the name of Ricardo does not appear in the Report of the Committee; he was not examined before it, as far as the records show. An unnamed "Continental Merchant" holds sensible views

[6] *High Price,* McCulloch's edition of Ricardo's Works, 283.

[7] *Ibid.*

[8] Report, pp. 40 and 42.

not unlike his so far as they go; but they do not go very far. Both refer to the Hamburg trade; but Ricardo could hardly be set down as a merchant, and his identity could hardly have remained concealed if the anonymous witness had been he.[9] Other men too had been active on the same side.

It was, however, generally acknowledged that Ricardo's advocacy of the cause had been the most potent; he was as truly the protagonist of currency reform as Cobden, at a later date, of Corn Law Repeal. We may apply to his principles the eulogy of Marshall—"That doctrine was established by Ricardo and I do not know that any person has shaken it in the least."[10] When you turn to Marshall's context you will observe that Marshall is speaking apparently of something different, namely, the general theory of international trade; he is speaking not of currency but of oranges and cutlery, as embraced in the general theory of international trade. This general theory, however, seems to have been formulated by Ricardo out of the theory of the local equilibrium of currency in the form in which it has just been described here. As Malthus and others have laid stress on tendencies, Ricardo, without ceasing to respect tendencies,[11] was coming to see the significance of proportions. Perhaps we might say that this is the dominant feature of his reasonings in economics. Where the theory of another economist was a statement of a tendency, his theory would be a statement of a proportion. "No law can be laid down respecting quantity."[12] The theory of foreign trade laid down in the "Political Economy and Taxation" (1817) is a statement of proportions.

It depends largely on the fact, more true in 1817 than in 1910, that capital does not move easily from country to country and therefore competition does not bring profits to a level all over the world or even all over Europe. There is one rate of profit in one country and a different rate in another. Each country has an equilibrium of its own, a level of profits to which domestic competition tends to reduce the profits of all commercial undertakings within the country. But the level of the foreign country

[9] He quotes the anonymous merchant more than once; see McCulloch's edition of his Works, pp. 308, 311, 322.

[10] Answ. 9735, Gold and Silver Commission, Evidence, December 19, 1887, p. 11; cf. p. 42 (English blue book).

[11] E. g., pp. 51, 52.

[12] *Letter to Malthus,* October 10, 1820, p. 175.

may be quite different from our own. If we could move out capital from where profits are low to where they are high, the result would be good, both for capitalists and for consumers. When a country has a great advantage in one production and a distinct though less advantage in a second, the best course for all parties, on the principle of the territorial division of labor, is to bring in the capital to work both of them;—Ricardo does not say the labor perhaps because on the Malthusian principle labor could not fail to come where the capital came. But that easy transference of capital does not happen, and accordingly we have the phenomenon of a country importing what it could have produced as well as the foreigner or better, and producing and exporting only what it can produce, not only a little better but very much better, confining itself to the production where it has the greatest advantage, as a single person, of greater abilities for any and every career than his neighbors, lets his neighbors take up the trades in which he would have excelled them less and devotes himself to the trade in which he is most their superior. To a single person it is physically impossible to be a Jack of all trades in these latter days; to the country it is not physically impossible, but there are physical difficulties and social and linguistic difficulties, as yet not quite removed. This phenomenon of which much has been made in the expositions of later writers under the heading of comparative cost, is described most fully by Ricardo in a footnote, as if he himself did not give it front rank.[13] The basis is given briefly in the text (76).

Alongside of this hindrance of effective competition we must place the fact that "gold and silver, the general medium of circulation, are by the competition of commerce distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic, which would take place if no such metals existed and the trade between countries were purely a trade of barter."[14] "The money of each country is apportioned to it in such quantities only as may be necessary to regulate a profitable trade of barter."[15] "Accommodate themselves" and "regulate" are perhaps not very happy terms here. The following statement may be hazarded to avoid them. Under

[13] McCulloch's edition of Works, *Political Economy and Taxation,* p. 77; 1st ed., p. 160.

[14] *Political Economy and Taxation,* pp. 77-84.

[15] *Ibid.,* 79-80.

barter an equivalent article, an article wherewith to buy what we want to have, is indispensable in all circumstances; under the régime of money, an equivalent article other than money itself, is not absolutely indispensable; the gold may be sent instead, gold being treated as the international money of commerce. Money is the measure of value; goods are measured by their prices in gold. Money is the means of exchange; goods are sent from where they fetch little of it to where they fetch much of it. Money itself, a tool of exchange but a material tool, will be sent from where it fetches less, to where it fetches more. It will, therefore, only be sent when the proportion of currency wanted by domestic needs is exceeded, and the value of money is relatively too low, prices of goods being relatively too high. It is therefore exported. But the tendency of exporting money is to raise prices of goods by increasing the abundance of money, in the country to which it is sent. But to raise prices in the country where you are buying goods is gradually to make it unprofitable for you to go on buying them there. From being cheap they will, like all other goods there, become dear; your money will be more valuable in your own country; you will find goods the more profitable mode of payment since they are now dear there, and the money will come back to the place where it is worth more, where the general level has been altered, if one may say so, to its advantage, and not to its disadvantage.

What causes such alterations? Be it remembered that an increase or a decrease in the facility of production of gold itself would presumably affect all countries equally, and after the first flicker, though the quantities were altered, the proportions would be as before, both between gold and other goods in the same country, and as between one country and another.

But how do we explain the difference in the value of gold between one country and another? Ricardo gives two reasons. There is first the difficulty of procuring the gold from the place of origin; one country may be either farther away than another, or may have fewer goods, to barter for the gold, of the sort that the mining country wants (82). Hence in the second place the development of manufactures, the skilled industry, and advantages of climate may make one country more easily successful in obtaining supplies of gold, and every fresh development of industry will make that metal cheaper. We might call the first negative and physical, the second the positive and human cause.

It follows that money is normally cheaper, proportionally, where trade is most highly developed.

Ricardo admits fully and sees as clearly as any of us here that there are disturbing causes (the phrase is used on page 81). Bounties and duties, for example, disturb the "natural trade of barter" and lessen the advantage possessed by the countries superior in skill, industry, and climate. If such countries adopt them they are limiting their own powers of purchasing gold cheaply (81-83).

Applying this particular conclusion of Ricardo's to our own day, we should say that the "natural course of things" would make English prices proportionally high; but the fact is otherwise, owing to the absence of disturbing causes (in the shape of vexatious taxes) in England, and the presence of such in rival nations. "They disturb the natural trade of barter and produce a consequent necessity of importing or exporting money in order that prices may be accommodated to the natural course of commerce; and this effect is produced, not only in the country, where the disturbing cause takes place, but in a greater or less degree in every country of the commercial world." (81) "Though taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate" (83), the chief being presumably the easier purchase of gold.

More space has been given to Ricardo's view of international trade as a sort of monetary equilibrium than can be given to his doctrine in its other aspects, as well as to his doctrines on other subjects. The intention was to raise the question, whether this was not the theory that led to all the other theories. It may have been the conscious skill with which he treated all matters of currency, that tempted him to generalize his solution there into a solution of economic problems in general. Few even of great thinkers are free from the domination of favorite categories, and Ricardo's favorite was proportion.[16]

Rent is a "proportion of the produce." (44) Is not value itself a proportion? Ricardo emphatically endorses the statement of Adam Smith that "the proportion between quantities of labor necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them

[16] Adam Smith, I, x. (end) has it; and so elsewhere, *e. g.*, IV, vii, 273, but it was not his favorite term.

for one another." (13) It is on the proportional quantity of labor that natural value depends, not on the wages given for that labor. Why? Because wages, like profits, have a uniform rate in a given country, competition driving them down to necessaries. Whether the necessaries mean a low standard of living or a high one (52), wages are "regulated by the proportion between the supply and demand of necessaries and the supply and demand of labor." (95) In the same way competition drives profits down to the gains of capital employed on the worst land that is worth cultivating at all. There cannot be two rates in a given country, when competition does its perfect work (36). Whatever the variations of money, the value of the produce will "bear the same proportion to the value of the capital" after the variation as before. Although the produce is doubled, "rent, wages, and profits will only vary as the proportions vary, in which this doubled produce may be divided among the three classes that share it." (33) "The profits of stock in different employments bear a certain proportion to each other, and have a tendency to vary all in the same degree, and in the same direction" (60), profits being in any case high or low, according as wages are low or high, and depending "on the quantity of labor requisite to provide necessaries for the laborers on that land, or with that capital which yields no rent." (70 cf. 66)

On the other hand, in proportion to the increase of capital will be the increase in the demand for labor (51). This increase, in the work to be done, raises the market rate of wages above the "natural rate"; but increase of population tends to pull it down again—and produce, we may suppose, the equilibrium of a calm sea.

Ricardo knows perfectly well that seas are not calm; he knows he is dealing only with tendencies. He is deliberately simplifying his subject, and tells us so (*e. g.*, 66). In asking where Ricardo succeeded and where he failed, we are not only asking whether in the limited field he chose for his investigations he lighted upon the right tendencies and the right proportions, but whether his efforts had lasting effects, it may have been on method merely.

He has certainly succeeded in impressing all later economists with the importance of proportion. We need not suppose him to desire the coming of the calm sea, the stationary state; he says in so many words, that he hopes it is far distant (50). But are the tendencies and proportions such that a stationary state is

itself tending to arrive? No one ever saw a perfectly calm sea. But we all believe that on the whole there is a tendency for the waves to be ruled to a level. We (or our friends) have seen approaches to it. The scientific theory of the claim is said to be more complete than that of the waves. This is our plight at least in economics.

In regard to the monetary equilibrium and theory of the currency in general, if Ricardo's is called a quantitative theory, the title is almost paradoxical, for it is a theory, as he would himself have said, not of quantities but of proportions. Taking it for what it is under any title, we may perhaps say that in our own times it is only less true than in his because the non-competitive groups of foreign trade have become less non-competitive and the frequent occurrence of non-competitive groups in home trade has been recognized. The world is small now, and if protective tariffs did not struggle so hard against foreign competition, capital and labor might flow so freely, as he thought they never would or even should (77). In any case they flow much more freely than in his day. If we had the statistical apparatus desired by Professor Irving Fisher, we might test the monetary theory empirically. The free flow does not of itself invalidate Ricardo's theory, for he applied it to one nation within itself as well as to groups of nations one toward another, and if the nations drew together they would economically be as one.

In regard to the general theory of foreign trade, Marshall's judgment, already quoted, has no doubt against it a considerable force of continental opinion. At a recent Free Trade Congress at Antwerp[17] Professor Mahaim of Liege gave a list of the doubters and was himself inclined to leave the theory of foreign trade to the mathematicians. The arithmetic of the older economists is however intelligible to a wider circle than the higher mathematics of the new. A recent pamphlet of the English Cobden Club tried, perhaps indiscreetly, to base the plea for free trade on an absolutely hard and fast distinction between home and foreign trade.[18] We may note at least that Ricardo is still so far alive that when those topics come up his name cannot be kept out of them.

In the matter of currency, Ricardo is still, to many of us, one of the few writers who speak clearly and impressively. He has

[17] Aug. 9 to 12, 1910.

[18] *Imports and Employment,* by Mr. Russell Rea, 1910.

made the régime of inconvertible paper currency, otherwise "the rule of the rag baby", forever impossible in civilized countries. He has on the other hand extended the lawful domain of a convertible paper currency. Today in Canada, the currency for anything over a half dollar is a paper currency, resting on a quite invisible basis of gold sovereigns and American eagles and fine gold bars. This is an approach to Ricardo's 'Economical and Secure Currency." Whether, finally, it be a compliment or not, Ricardo has some claim to be considered the father of the Bank Charter Act of 1844.

Professor Hollander has shown us how complete is Ricardo's title to be credited with the "Ricardian" theory of rent. The idea of differential returns has been extended farther than he can ever have expected. There is, however, one passage in the chapter on Rent,[19] which gives a fair text for a sermon on Final Utility: "The exchangeable value of all commodities, whether they be manufactured or the produce of the mines or the produce of land, is always regulated not by the less quantity of labor that will suffice for their production, under circumstances highly favorable and exclusively enjoyed by those who have peculiar facilities of production, but by the greater quantity of labor necessarily bestowed on their production by those who have no such facilities, by those who continue to produce them under the most unfavorable circumstances, the most unfavorable under which the quantity of produce required renders it necessary to carry on the production."

Such theories as that of Professor Taussig on wages seem far enough from Ricardo, but you will note that the ruling idea is "a competitive margin for capital"[20] and it is the idea in Ricardo's mind in the passage last quoted.[21]

It was Ricardo's theory of value which from 1848 to 1871 seemed to John Stuart Mill "complete."[22] The recasting of the theory of value has proceeded apace since then. Mill's was the last of the great textbooks to be almost purely Ricardian in theory. Not only the theory of value but the theory of capital and interest, and the theory of wages have all been modified; and there is probably no body of economists now, who would identify

[19] In *Political Economy and Taxation,* p. 37.

[20] Address to American Economic Association, New York, 1909.

[21] Adam Smith, *Wealth of Nations.*

[22] *Political Economy* III, i, § 1.

themselves with the Ricardian doctrines exactly in the form in which Ricardo taught them. That there are Ricardian ingredients wrought into the substance of modern economic doctrines, is shown by such examples as the passage quoted from Professor Taussig. But Ricardo's success in those departments has been rather in method, than in results. He has given the type of characteristic economic discussion, close set logical reasoning from premises clearly defined, the defects almost invariably lying in those premises, not in that reasoning. As Professor Hollander has hinted, such a discursive treatise as that of Adam Smith, however necessary at the beginning of the new English period of economic research, would not be now reckoned scientific; and woe to him who would try to be a second Adam Smith and plant a treatise of that kind on us now. Even Malthus, writing a general treatise a few years after Ricardo's, is found to be attempting a more rigorous logical discussion in the manner of his friend. In many matters Malthus may have been really nearer the truth; but in tenacity of grasp, in close reasoning, he was no match for his friend. We did not need the rather ill-natured account of their debates at the Political Economy Club to convince us of this fact.[23]

It would be vain to contend that Ricardo's writings or the writings of his friend, or even the two conjoined, contain the promise and potency of all the fruitful economical ideas of later date. He has left some departments of doctrine unillumined. Professor Hollander has shown how much more he has illumined than is generally recognized. For an economist to have succeeded it is enough that his work in whole, or in the main part, has been built into the fabric reared afterwards. As we cannot conceive public finance to be taught without aid from Adam Smith, or the theory of population without Malthus, so we cannot conceive currency or rent or taxation or the funding system to be taught without aid from Ricardo.

Ricardo thought that his disciples would put his case before the public better than he could himself, because in his modesty he fancied they knew how to write and he did not. For all that, it seems likely that economists will prefer to read him in the original. Not only are they securer then against the risk of taking a commentary for a text, but they are likely to find his defects of style to have been exaggerated. They were exaggerated (he

[23] Bain, *Life of James Mill,* p. 199.

confesses it) by the writer of these very lines. It is true that the "Political Economy and Taxation" reads like a series of essays, originally detached and not quite compactly built together. But the sentences in detail are seldom worse than those of other economists. Economists, in reviewing each other's books, usually attack the reasoning and leave the style alone. There are ungrammatical sentences in Adam Smith, traceable with the microscope; but, though he is not saved for them, he is not usually condemned for them. If McCulloch's style was better, this has not saved him from execration. Professor Hollander has shown us that this adoring disciple was a little unscrupulous in the editing of his master's writings. In his notes on Adam Smith he was often wrong about his author's omissions and commissions. He was also fallible like all of us in proof correcting. Ricardo is credited even by Professor Gonner,[24] with a hopeless phrase in the chapter on Foreign Trade, so often mentioned in this address. The phrase, as it stood in the first and second editions, was perfectly good and grammatical; it suffered misprint in the third edition, which McCulloch too nearly followed.

If his style had really been one of the worst we should hardly have found ourselves bound to his phrases. An author may well be a little flattered when people who discourse on his favorite topics use his favorite terms about them. Of course, it may be obscurity that drives us to this, but it may be just the opposite. Ricardo's mistake in authorship, was his agreeing against his better judgment to try to cover the whole ground at one swoop in a single treatise, as if a lyric poet should write an epic. His own inclination led him to attack one subject at a time in a pamphlet. None of the pamphlets are strikingly defective in arrangement, and, if he had gone on letting them grow, one out of the other as they seemed likely to do, the result would have had coherence of thought in it. As it stands, the large treatise is not to be recommended as a model for our young economists to imitate. They ought not to imitate anybody; but it would be cause for rejoicing if an increasing number of them wrote pamphlets of his quality and in his manner, emulating him too throughout their controversies in the art of polite letter writing, of which he is a master.

[24] Ricardo's *Political Economy,* 1891, p. 123. McCulloch's ed. of Ricardo's Works, p. 81, near foot: "to the fact"; 1st ed. 1817 and 2nd ed. 1819 "in fact"; 3rd ed. 1821, "to fact".